OPEN MEETING AGENDA ITEM

A subsidiary of Pinnacle West Capital Corporation

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December 10, 2008

Chairman Mike Gleason
Commissioner William A. Mundell
Commissioner Jeff Hatch-Miller
Commissioner Kristin K. Mayes
Commissioner Gary Pierce
ARIZONA CORPORATION COMMISSION
1200 West Washington
Phoenix, AZ 85007

Arizona Corporation Commission
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***Re:*** ***Docket No. E-01345A-08-0172 (Interim Rate Case)***

Dear Commissioners:

I realize that it is unusual to file written comments on proposed Commissioner amendments, but I am compelled to write you and all parties to this docket in response to Commissioner Hatch-Miller's Proposed Amendment #1 ("Amendment"). Although we appreciate the recognition that the Company currently faces a financial emergency and that interim rate relief is necessary in order to prevent the dire consequences of a further downgrade of the Company's credit rating, it is imperative that the Commission understand that the Company cannot survive as an investment grade utility with an elimination of its dividends to Pinnacle West.

As the Amendment correctly points out on page 2, "as APS' financial condition worsens, uncertainty surrounds whether the Company will be able to continue to provide consistent, reliable service or will be able to promote a sustainable energy future for this State." The plain fact is that current rates do not cover the Company's cost of providing service, and without adequate interim rate relief, the likelihood that the Company and its customers will face much higher financial costs in the future is almost certain. Although we look forward to discussing the interim rate increase at the open meeting next week, we urge all the Commissioners to consider the reality of today's perilous financial market and our combined goal that APS obtain needed capital at the lowest reasonable cost.

This being said, the portion of the Amendment that would require or condition interim rate relief on elimination of dividends by APS until at least the final order in the permanent rate case would produce devastating financial consequences for the Company and its customers both now and well into the future. Such a prohibition would eliminate any possibility of the Company raising equity capital at any time in the foreseeable future, would require the Company to rely almost exclusively on difficult, if not impossible, to obtain debt financing, would produce only a marginal short-term increase in the Company's FFO/Debt ratio but a devastating long-term decline in that ratio, would quickly and substantially drive down the price of Pinnacle West stock to a small fraction of its already depressed price, and would destroy investor confidence in Pinnacle West for many years to come. As a result, I have no doubt that the Company's credit rating would be quickly downgraded to non-investment status. I would also point out that the Commission's hearing in this matter did not produce any evidence supporting dividend elimination as a "price to pay" for clearly needed rate relief, nor did any witness recommend it.

The Company's dividend to Pinnacle West is the life blood of the equity financing from Pinnacle West that provides more than half of the Company's financial resources. That dividend has remained the same since the early 1990's and has not been increased even to recognize the $859 million of equity infused into the Company in the last four years. Since 1996, this static payout represents at least a 27% decline in the real (inflation adjusted) APS dividend to Pinnacle West and over a 50% decline in the dividend as a percentage of Pinnacle West's equity investment in APS.

An investor-owned electric utility, to a far greater extent than most publicly traded companies, is dependent on its dividend to attract equity investors. Elimination, or even any significant reduction, of the Company's dividend would send investors fleeing from Pinnacle West to other utility stocks that provide a more stable and certain financial return. This is particularly true with electric utility investors if they believe dividend decisions are no longer within the control of a company's board of directors and instead must be approved by regulators. Even after reinstatement of a dividend after it has been halted, it will take years to rebuild investor confidence, during which time a company's ability to raise additional equity capital will be seriously curtailed.

To conclude, I appreciate the Amendment's recognition of the Company's existing financial emergency, the significant risk of a credit downgrade without interim rate relief, and the dire financial consequences to the Company and its customers if a downgrade occurs. I hope the Commission as a whole will conclude that a modest 4% refundable interim increase is reasonable and prudent protection against the much higher financial costs that will surely follow a denial of our request or the elimination of APS' dividend.

Very truly yours,

Donald E. Brandt

cc: Ernest Johnson
Janice Alward
Lyn A. Farmer
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Docket Control

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